

**REPORT OF THE AUDIT OF THE  
BATH COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BATH COUNTY FISCAL COURT**

**June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Bath County Fiscal Court for the fiscal year ended June 30, 2004.

We have issued unqualified opinions, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information of Bath County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$2,027,234 as of June 30, 2004. The fiscal court had unrestricted net assets of \$305,865 in its governmental funds as of June 30, 2004. The fiscal court had total debt principal as of June 30, 2004 of \$776,811 with \$70,443 due within the next year.

#### **Report Comments:**

- The 4<sup>th</sup> Quarter Financial Statement Should Be Prepared Correctly
- The County Should Maintain Time Records For All Employees
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Fiscal Court Should Adopt A Written Investment Policy
- The County Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures
- The Fiscal Court Should Prepare A Schedule of Expenditures Of Federal Awards



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Bath County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Bath County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
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We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bath County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2005 on our consideration of Bath County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The 4<sup>th</sup> Quarter Financial Statement Should Be Prepared Correctly
- The County Should Maintain Time Records For All Employees
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Fiscal Court Should Adopt A Written Investment Policy
- The County Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures
- The Fiscal Court Should Prepare A Schedule of Expenditures Of Federal Awards

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 17, 2005



## BATH COUNTY OFFICIALS

For The Year Ended June 30, 2004

### **Fiscal Court Members:**

Walter Shrout	County Judge/Executive
Jimmy Cline	Commissioner
Billy Martin	Commissioner
E.H. Snedegar	Commissioner

### **Other Elected Officials:**

Kim Hunt Price	County Attorney
Palmer Crouch	Jailer
Glen Thomas	County Clerk
Nancy Crouch	Circuit Court Clerk
Randall Armitage	Sheriff
Paul Goodpaster	Property Valuation Administrator
Robert Powell	Coroner

### **Appointed Personnel:**

Myra Toy	County Treasurer
Eugene Swartz	Road Supervisor
Rickie Faudere	911 Administrator



**BATH COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**



**BATH COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 376,308
Total Current Assets	<u>376,308</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	85,000
Land and Land Improvements	21,730
Buildings	1,831,204
Vehicles	71,685
Equipment	265,606
Infrastructure Assets - Net of Depreciation	<u>152,512</u>
Total Noncurrent Assets	<u>2,427,737</u>
Total Assets	<u>2,804,045</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Bond Payable	28,000
Financing Obligations	<u>42,443</u>
Total Current Liabilities	<u>70,443</u>
Noncurrent Liabilities:	
Bond Payable	126,000
Financing Obligations	<u>580,368</u>
Total Noncurrent Liabilities	<u>706,368</u>
Total Liabilities	<u>776,811</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,721,369
Unrestricted	<u>305,865</u>
Total Net Assets	<u>\$ 2,027,234</u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**





**BATH COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

<b>Functions/Programs Reporting Entity</b>				<b>Net (Expenses) Revenues and Changes in Net Assets</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
Governmental Activities:				
General Government	\$ 701,727	\$ 93,910	\$ 345,967	\$ (261,850)
Protection to Persons and Property	467,269		135,364	(331,905)
General Health and Sanitation	429,899			(429,899)
Social Services	11,636			(11,636)
Recreation and Culture	33,735			(33,735)
Roads	1,038,428		1,339,818	301,390
Bus Services	11,290			(11,290)
Interest on Long-term Debt	27,126			(27,126)
Capital Projects	32,800			(32,800)
Total Governmental Activities	<u>\$ 2,753,910</u>	<u>\$ 93,910</u>	<u>\$ 1,821,149</u>	<u>(838,851)</u>

**General Revenues:**

Taxes:	
Real Property Taxes	217,117
Personal Property Taxes	10,680
Motor Vehicle Taxes	63,975
Other Taxes	63,378
In Lieu Of Tax Payments	18,905
Excess Fees	45,443
Unrestricted Investment Earnings	9,304
Miscellaneous Revenues	219,801
Total General Revenues	<u>648,603</u>
Change in Net Assets	(190,248)
Net Assets - Beginning (Restated)	<u>2,217,482</u>
Net Assets - Ending	<u>\$ 2,027,234</u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

**BATH COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Building Commission Fund</b>	<b>Depreciation Reserve Fund</b>	<b>(in thousands)</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 195,760	\$ 129,263	\$ 1,784	\$ 44,803	
Total Assets	<u>\$ 195,760</u>	<u>\$ 129,263</u>	<u>\$ 1,784</u>	<u>\$ 44,803</u>	:
<b>FUND BALANCES</b>					
Unreserved:					
General Fund	\$ 195,760	\$	\$	\$	
Special Revenue Funds		129,263	1,784		
Debt Service Fund				44,803	
Total Fund Balances	<u>\$ 195,760</u>	<u>\$ 129,263</u>	<u>\$ 1,784</u>	<u>\$ 44,803</u>	:

The accompanying notes are an integral part of the financial statements.

**BATH COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2004**  
**(Continued)**

<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 4,698	\$ 376,308
<u>\$ 4,698</u>	<u>\$ 376,308</u>

\$	\$ 195,760
4,698	135,745
	<u>44,803</u>
<u>\$ 4,698</u>	<u>\$ 376,308</u>

**Reconciliation of the Balance Sheet - Governmental  
Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 376,308
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	2,973,650
Accumulated Depreciation	(545,913)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonded Debt	(154,000)
Financing Obligations	<u>(622,811)</u>
Net Assets of Governmental Activities	<u>\$ 2,027,234</u>

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**BATH COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Building Commission Fund</b>
<b>REVENUES</b>			
Taxes	\$ 355,149	\$	\$
In Lieu Tax Payments		18,905	
Excess Fees	45,442		
Licenses and Permits	73,686		
Intergovernmental	358,621	1,309,818	78,628
Charges for Services	20,224		
Miscellaneous	83,583	31,893	
Interest	3,013	4,464	310
Total Revenues	<u>939,718</u>	<u>1,365,080</u>	<u>78,938</u>
<b>EXPENDITURES</b>			
General Government	344,676		
Protection to Persons and Property	104,369		
General Health and Sanitation	140,346	7,100	360,591
Social Services	11,636		
Recreation and Culture	33,118		
Roads		1,145,735	
Bus Services			
Debt Service	15,319	20,505	51,914
Capital Projects			32,800
Administration	228,124	137,916	
Total Expenditures	<u>877,588</u>	<u>1,311,256</u>	<u>445,305</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>62,130</u>	<u>53,824</u>	<u>(366,367)</u>
<b>Other Financing Sources (Uses)</b>			
Financing Obligation Proceeds			360,591
Transfers from Other Funds	149,594	(149,594)	
Transfers to Other Funds	(166,676)		
Total Other Financing Sources (Uses)	<u>(17,082)</u>	<u>(149,594)</u>	<u>360,591</u>
Net Change in Fund Balances	45,048	(95,770)	(5,776)
Fund Balances - Beginning	150,712	225,033	7,560
Fund Balances - Ending	<u>\$ 195,760</u>	<u>\$ 129,263</u>	<u>\$ 1,784</u>

The accompanying notes are an integral part of the financial statements.



**BATH COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

<b>Depreciation Reserve Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$	\$ 355,149
		18,905
		45,442
		73,686
	74,082	1,821,149
		20,224
	104,325	219,801
999	520	9,306
999	178,927	2,563,662
		344,676
	445,968	550,337
		508,037
		11,636
		33,118
	25,611	1,171,346
	11,290	11,290
		87,738
		32,800
	15,918	381,958
	498,787	3,132,936
999	(319,860)	(569,274)
	139,409	500,000
	166,676	166,676
		(166,676)
	306,085	500,000
999	(13,775)	(69,274)
43,804	18,473	445,582
\$ 44,803	\$ 4,698	\$ 376,308

The accompanying notes are an integral part of the financial statements.

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**BATH COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**BATH COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	(69,274)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		400,262
Depreciation Expense		(81,848)

The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, While the Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.

Financing Obligation		(500,000)
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Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Bond Principal Payments		26,000
Financing Obligations Principal Payment		<u>34,612</u>

Change in Net Assets of Governmental Activities	\$	<u>(190,248)</u>
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**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Bath County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

**Blended Component Unit**

**Bath County Building Commission**

The Building Commission is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Building Commission's governing body consists entirely of Fiscal Court members. Therefore management must include the Building Commission as a component unit, and the Building Commission's financial activity has been blended with that of the Fiscal Court.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Bath County Elected Officials Not Part of Bath County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Bath County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Bath County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.



**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major. Bath County reports only governmental funds.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Building Commission Fund - This is a blended component unit of the Bath County Fiscal Court. It was established to incur long-term debt necessary to build the annex facility. The annual principal and interest payments for the annex are made from this fund.

Depreciation Reserve Fund - This interest-bearing fund will be used to make the final debt service payment on the annex facility debt.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Forest Fire Protection Fund, and Dispatch 911 Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forest Fire Protection Fund, and Dispatch 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Funds:**

The Building Commission Fund and Depreciation Reserve Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale on April 30 following the delinquency date.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Only the current year's infrastructure was reported.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10 - 60
Buildings and Building Improvements	\$ 25,000	10 - 75
Machinery and Equipment	\$ 2,500	3 - 25
Vehicles	\$ 2,500	5 - 10
Infrastructure	\$ 20,000	5 - 50

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt, and other long-term obligations, are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balance may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Governor's Office for Local Development does not require the Building Commission Fund to be budgeted. However, the Bath County Fiscal Court has budgeted this fund to account for bond indentures and other relevant contractual provisions requiring specific payments to and from this fund annually.

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of September 25, 2003, the collateral and the FDIC insurance together for deposits at one bank did not equal or exceed the amount on deposit, leaving \$300,000 of public funds uninsured and unsecured. In addition, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of September 25, 2003.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Uncollateralized and uninsured	<u>300,000</u>
Total	<u><u>\$ 400,000</u></u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,493	\$	\$	\$ 3,493
Construction in Progress		85,000		85,000
Total Capital Assets Not Being Depreciated	3,493	85,000		88,493
Capital Assets, Being Depreciated:				
Land Improvements	48,200			48,200
Buildings	2,123,297	48,582		2,171,879
Vehicles	160,000			160,000
Equipment	238,398	100,000		338,398
Infrastructure		166,680		166,680
Total Capital Assets Being Depreciated	2,569,895	315,262		2,885,157
Less Accumulated Depreciation for:				
Land Improvements	(28,201)	(1,762)		(29,963)
Buildings	(312,125)	(28,550)		(340,675)
Vehicles	(74,800)	(13,515)		(88,315)
Equipment	(48,939)	(23,853)		(72,792)
Infrastructure		(14,168)		(14,168)
Total Accumulated Depreciation	(464,065)	(81,848)		(545,913)
Total Capital Assets, Being Depreciated, Net	2,105,830	233,414		2,339,244
Governmental Activities Capital Assets, Net	\$ 2,109,323	\$ 318,414	\$ 0	\$ 2,427,737

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 23,675
Protection to Persons and Property	16,932
General Health and Sanitation	6,862
Recreation and Culture	617
Roads, Including Depreciation of General Infrastructure Assets	<u>33,762</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 81,848</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt**

**A. First Mortgage Refunding Revenue Bonds, Series 1981**

On January 1, 1981, the Bath County Building Commission issued \$530,000 of revenue bonds for the purpose of courthouse annex renovation. The bonds require that an annual interest and principal payment be made on January 1 of each year, commencing January 1, 1981. The bonds will mature January 1, 2009. As of June 30, 2004, the principal amount outstanding was \$154,000. Future bond principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 28,000	\$ 7,700
2006	29,000	6,300
2007	31,000	4,850
2008	32,000	3,300
2009	34,000	1,700
Totals	<u>\$ 154,000</u>	<u>\$ 23,850</u>

**B. Financing Obligation**

On September 25, 2003, the Bath County Building Commission received loan proceeds in the amount of \$400,000 from USDA Rural Development to purchase a building and to purchase a trailer to house Dispatch/911 operations. The loan requires that an annual interest and principal payment be made on January 1 of each year, commencing January 1, 2005. The final payment is due on January 1, 2033. As of June 30, 2004, the principal amount outstanding was \$400,000. Future loan principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 7,500	\$ 17,000
2006	7,500	16,841
2007	8,000	16,523
2008	8,000	16,193
2009	8,500	15,853
2010-2014	48,500	73,623
2015-2019	60,000	62,636
2020-2024	73,500	49,079
2025-2029	90,500	32,409
2030-2033	88,000	11,847
Totals	<u>\$ 400,000</u>	<u>\$ 312,004</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Financing Obligations, Voting Machines**

On September 29, 1997, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase voting machines. The agreement requires 120 monthly payments at a variable interest rate to be paid in full on October 29, 2007. As of June 30, 2004, the principal amount outstanding was \$16,941. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 4,857	\$ 435
2006	5,047	290
2007	5,244	138
2008	1,793	11
Totals	<u>\$ 16,941</u>	<u>\$ 874</u>

**D. Financing Obligations, Caterpillar Motor Grader**

On March 1, 2003, the Bath County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation to lease a Caterpillar Motor Grader for \$134,702. The agreement requires 72 monthly payments at a 4% interest rate to be paid in full on February 28, 2009. As of June 30, 2004, the principal amount outstanding was \$107,304. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 21,341	\$ 3,864
2006	22,210	2,995
2007	23,115	2,090
2008	24,057	1,148
2009	16,581	224
Totals	<u>\$ 107,304</u>	<u>\$ 10,321</u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**E. Financing Obligations, Emergency Response Equipment**

On March 31, 2004, the Bath County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase emergency response equipment for \$100,000. The agreement requires 120 monthly payments at a 2.245% interest rate to be paid in full on April 20, 2014. As of June 30, 2004, the principal amount outstanding was \$98,567. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 8,745	\$ 2,873
2006	9,012	2,616
2007	9,288	2,349
2008	9,571	2,077
2009	9,863	1,794
2010-2014	52,088	4,411
Totals	<u>\$ 98,567</u>	<u>\$ 16,120</u>

**F. Financing Obligations, Vehicles**

On January 20, 2004 the Bath County Fiscal Court made the final principal payment in the amount of \$8,000 on a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase vehicles.

**G. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 180,000	\$	\$ 26,000	\$ 154,000	\$ 28,000
Financing Obligations	157,423	500,000	34,612	622,811	42,443
Governmental Activities					
Long-term Liabilities	<u>\$ 337,423</u>	<u>\$ 500,000</u>	<u>\$ 60,612</u>	<u>\$ 776,811</u>	<u>\$ 70,443</u>



**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 6. Insurance**

For the fiscal year ended June 30, 2004, Bath County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 7. Changes in Accounting Principles and Prior Period Adjustments**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities was as follows:

	Governmental Activities
Beginning Balance	\$ 445,582
Capital Assets (net of accumulated depreciation) previously omitted	2,109,323
Long-Term Debt previously omitted	<u>(337,423)</u>
Total Restated Beginning Balance	<u><u>2,217,482</u></u>

**BATH COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 8. Estimated Infrastructure Historical Cost**

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**



**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2004**

<b>GENERAL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 322,000	\$ 325,557	\$ 355,149	\$ 29,592
Excess Fees	25,000	45,442	45,442	
Licenses and Permits	57,000	57,000	73,686	16,686
Intergovernmental Revenue	1,007,340	1,055,311	358,621	(696,690)
Charges for Services	15,000	15,000	20,224	5,224
Miscellaneous	56,100	85,616	83,583	(2,033)
Interest	10,000	10,000	3,013	(6,987)
Total Revenues	<u>\$ 1,492,440</u>	<u>\$ 1,593,926</u>	<u>\$ 939,718</u>	<u>\$ (654,208)</u>
<b>EXPENDITURES</b>				
General Government	330,630	347,028	344,676	2,352
Protection to Persons and Property	52,390	106,555	104,369	2,186
General Health and Sanitation	944,460	921,028	140,346	780,682
Social Services	12,800	14,136	11,636	2,500
Recreation and Culture	26,497	34,352	33,118	1,234
Debt Service	13,465	16,227	15,319	908
Administration	193,062	235,464	228,124	7,340
Total Expenditures	<u>\$ 1,573,304</u>	<u>\$ 1,674,790</u>	<u>\$ 877,588</u>	<u>\$ 797,202</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(80,864)</u>	<u>(80,864)</u>	<u>62,130</u>	<u>142,994</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	149,594	149,594	149,594	
Transfers to Other Funds	(205,568)	(205,568)	(166,676)	38,892
Total Other Financing Sources (Uses)	<u>\$ (55,974)</u>	<u>\$ (55,974)</u>	<u>\$ (17,082)</u>	<u>\$ 38,892</u>
Net Changes in Fund Balance	(136,838)	(136,838)	45,048	181,886
Fund Balance - Beginning	<u>136,838</u>	<u>136,838</u>	<u>150,712</u>	<u>13,874</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 195,760</u>	<u>\$ 195,760</u>

**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004 (Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 787,064	\$ 1,313,952	\$ 1,309,818	\$ (4,134)
In Lieu Tax Payments	20,000	20,000	18,905	(1,095)
Miscellaneous		22,584	31,893	9,309
Interest	10,000	10,000	4,464	(5,536)
Total Revenues	<u>\$ 817,064</u>	<u>\$ 1,366,536</u>	<u>\$ 1,365,080</u>	<u>\$ (1,456)</u>
<b>EXPENDITURES</b>				
General Health and Sanitation	\$	\$	\$ 7,100	\$ (7,100)
Roads	604,495	1,197,962	1,145,735	52,227
Debt Service	20,505	20,505	20,505	
Administration	214,644	170,649	137,916	32,733
Total Expenditures	<u>\$ 839,644</u>	<u>\$ 1,389,116</u>	<u>\$ 1,311,256</u>	<u>\$ 77,860</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(22,580)</u>	<u>(22,580)</u>	<u>53,824</u>	<u>76,404</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to Other Funds	<u>(149,594)</u>	<u>(149,594)</u>	<u>(149,594)</u>	
Total Other Financing Sources (Uses)	<u>(149,594)</u>	<u>(149,594)</u>	<u>(149,594)</u>	
Net Changes in Fund Balance	(172,174)	(172,174)	(95,770)	76,404
Fund Balance - Beginning	<u>172,174</u>	<u>172,174</u>	<u>225,033</u>	<u>52,859</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 129,263</u>	<u>\$ 129,263</u>

**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004 (Continued)**

BUILDING COMMISSION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 71,608	\$ 71,608	\$ 78,628	\$ 7,020
Interest	500	500	310	(190)
Total Revenues	<u>\$ 72,108</u>	<u>\$ 72,108</u>	<u>\$ 78,938</u>	<u>\$ 6,830</u>
EXPENDITURES				
General Health and Sanitation	\$	\$ 360,591	\$ 360,591	\$
Debt Service	35,250	51,914	51,914	
Capital Projects	52,498	35,834	32,800	3,034
Total Expenditures	<u>\$ 87,748</u>	<u>\$ 448,339</u>	<u>\$ 445,305</u>	<u>\$ 3,034</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	<u>\$ (15,640)</u>	<u>\$ (376,231)</u>	<u>\$ (366,367)</u>	<u>\$ 9,864</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		360,591	360,591	
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 360,591</u>	<u>\$ 360,591</u>	<u>\$ 0</u>
Net Changes in Fund Balances	(15,640)	(15,640)	(5,776)	9,864
Fund Balances - Beginning	<u>15,640</u>	<u>15,640</u>	<u>7,560</u>	<u>(8,080)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,784</u>	<u>\$ 1,784</u>

**BATH COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004 (Continued)**

<b>DEPRECIATION RESERVE FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$ 800	\$ 800	\$ 999	\$ 199
Total Revenues	\$ 800	\$ 800	\$ 999	\$ 199
<b>EXPENDITURES</b>				
General Government	43,600	43,600		43,600
Total Expenditures	\$ 43,600	\$ 43,600	\$ 0	\$ 43,600
Excess (Deficiency) of Revenues Over Expenditures	\$ (42,800)	\$ (42,800)	\$ 999	\$ 43,799
Net Changes in Fund Balance	(42,800)	(42,800)	999	43,799
Fund Balance - Beginning	42,800	42,800	43,804	1,004
Fund Balance - Ending	\$ 0	\$ 0	\$ 44,803	\$ 44,803



**BATH COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2004**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The State Local Finance Officer does not require the Building Commission Fund and Depreciation Reserve Fund to be budgeted. However, these funds are budgeted and bond indentures and other relevant contractual provisions require specific annual payments from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**BATH COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**



**BATH COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Forest Fire Protection Fund</b>	<b>Dispatch 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,430	\$ 1,153	\$	\$ 2,115	\$ 4,698
Total Assets	<u>\$ 1,430</u>	<u>\$ 1,153</u>	<u>\$ 0</u>	<u>\$ 2,115</u>	<u>\$ 4,698</u>
<b>FUND BALANCES</b>					
Unreserved:					
Special Revenue Funds	\$ 1,430	\$ 1,153	\$	\$ 2,115	\$ 4,698
Total Fund Balances	<u>\$ 1,430</u>	<u>\$ 1,153</u>	<u>\$ 0</u>	<u>\$ 2,115</u>	<u>\$ 4,698</u>

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**BATH COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2004**





**BATH COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2004**

	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Forest Fire Protection Fund</b>	<b>Dispatch 911 Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>					
Intergovernmental	\$ 44,082	\$ 30,000	\$	\$	\$ 74,082
Miscellaneous	1,629			102,696	104,325
Interest	136	307		77	520
Total Revenues	<u>45,847</u>	<u>30,307</u>		<u>102,773</u>	<u>178,927</u>
<b>EXPENDITURES</b>					
Protection to Persons and Property	206,051		1,176	238,741	445,968
Roads		25,611			25,611
Bus Services		11,290			11,290
Administration	4,426			11,492	15,918
Total Expenditures	<u>210,477</u>	<u>36,901</u>	<u>1,176</u>	<u>250,233</u>	<u>498,787</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(164,630)</u>	<u>(6,594)</u>	<u>(1,176)</u>	<u>(147,460)</u>	<u>(319,860)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Financing Obligation Proceeds				139,409	139,409
Transfers From Other Funds	161,000		1,176	4,500	166,676
Total Other Financing Sources (Uses)	<u>161,000</u>		<u>1,176</u>	<u>143,909</u>	<u>306,085</u>
Net Change in Fund Balances	(3,630)	(6,594)		(3,551)	(13,775)
Fund Balances - Beginning	<u>5,060</u>	<u>7,747</u>		<u>5,666</u>	<u>18,473</u>
Fund Balances - Ending	<u>\$ 1,430</u>	<u>\$ 1,153</u>	<u>\$ 0</u>	<u>\$ 2,115</u>	<u>\$ 4,698</u>

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**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2004**



**BATH COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2004**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of the financial statements of Bath County, Kentucky.
2. Three reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. Four instances of noncompliance material to the financial statements of Bath County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Bath County expresses an unqualified opinion.
6. There were no audit findings relative to the major federal awards programs for Bath County reported in Part C of this schedule.
7. The programs tested as major programs were: Disaster and Emergency Assistance Grants, CFDA #97.036 and Community Facility Loans and Grants, CFDA #10.766
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Bath County was not determined to be a low-risk auditee.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**NONCOMPLIANCES:**

**Reference 2004-1**

**The 4<sup>th</sup> Quarter Financial Statement Should Be Prepared Correctly**

During the course of our audit, we noted numerous problems related to the presentation and disclosure of the 4<sup>th</sup> Quarter Financial Statement as noted below:

- Ending cash balances on the front page of the 4<sup>th</sup> Quarter Financial Statement did not agree to the reconciled cash balances for all funds. We had to make adjustments to the ledger amounts for the General Fund, Road Fund, Jail Fund, Building Commission Fund, Forest Fire Protection Fund and Dispatch/911 Fund to agree to the reconciled cash balances as of June 30, 2004.
- Encumbrances were not reported on the front page of the 4<sup>th</sup> Quarter Financial Statement because no encumbrance records are being maintained. The Governor's Office for Local Development requires encumbrances to be listed on the front page of the 4<sup>th</sup> Quarter Financial Statement.
- Transfers Out were not posted, therefore Transfers In and Transfers Out did not agree. These amounts were computed and adjusted also.
- The Contingent Liabilities section did not include all bonds, leases and loans. The Emergency Response Equipment and the Building Commission debt were omitted.
- Line items for receipts and disbursements were not separated and totaled by fund. Instead, all line items were shown together with no totals. Each fund should show year-to-date receipts less year-to-date disbursements and an ending balance that agrees to the reconciled bank balance.

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2004**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference Number 2004-1 (Continued)**

We recommend the Treasurer prepare an accurate 4<sup>th</sup> Quarter Financial Statement that depicts the true financial condition of the county.

*County Judge/Executive Walter B. ShROUT's Response:*

*Encumbrances had no PO system in place at the time. Transfers In and Transfers Out were corrected on present reports. There are individual fund totals on line items.*

**Reference Number 2004-2**

The County Should Maintain Time Records For All Employees

Timesheets were not maintained for the county treasurer, road supervisor, and other salaried employees. KRS 337.320 says every employer shall keep record of the hours worked each day and each week by each employee. Timesheets should be kept for payroll verification and as a record of leave time used. The employee and the appropriate supervisor should sign all timesheets. We recommend the county maintain time records properly for all employees.

*County Judge/Executive Walter B. ShROUT's Response:*

*These records will be kept in the new fiscal year.*

**Reference Number 2004-3**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On September 25, 2003, \$300,000 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive Walter B. ShROUT's Response:*

*I will talk to the banks and take care of this problem.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2004**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

NONCOMPLIANCES: (Continued)

**Reference Number 2004-4**

The Fiscal Court Should Adopt A Written Investment Policy

The fiscal court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt such a policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing this policy.

*County Judge/Executive Walter B. ShROUT's Response:*

*I will contact our County Attorney to help draw-up a written investment policy.*

REPORTABLE CONDITIONS:

**Reference Number 2004-5**

Lacks Adequate Segregation Of Duties

The internal control structure lacks a proper segregation of duties. There is a limited staff size that inhibits adequate division of responsibilities. We recommend the following compensating controls be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. Also, an independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- Receipt and Disbursement ledger pages should be footed and agreed to the Quarterly Reports.
- All disbursement checks should be signed by the County Treasurer.
- The Treasurer and the Judge/Executive should agree their books on a monthly basis.

*County Judge/Executive Walter B. ShROUT's Response:*

*Our Executive Secretary helps with the duties of the Treasurer as well as the duties of her office.*

**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2004**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

REPORTABLE CONDITIONS: (Continued)

**Reference Number 2004-6**

The County Should Implement Required Purchasing Procedures

The county does not have purchasing procedures in place to meet the requirements of the State Local Finance Officer. The road fund is the only fund that uses a purchase order system. The following procedures need to be implemented for all funds to meet the requirements as prescribed by the State Local Finance Officer:

- Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a Department Head
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary appropriation transfers have been made.
- Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive (or designee) who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

*County Judge/Executive Walter B. Shrout's Response:*

*These procedures will be in place in the new fiscal year. I think this will help in holding down spending.*

**Reference Number 2004-7**

The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards

OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule shall include:

- List individual Federal programs by Federal Agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For Example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.



**BATH COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2004**  
**(Continued)**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

REPORTABLE CONDITIONS: (Continued)

**Reference Number 2004-7 (Continued)**

The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards (Continued)

- Include notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

*County Judge/Executive Walter B. Shrout's Response:*

*Federal grants will have own account codes next year.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Adopt A Written Investments Policy
- Lacks Adequate Segregation Of Duties
- The County Should Implement Required Purchasing Procedures

These comments were not corrected and were repeated in the current audit.

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**BATH COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Other Supplementary Information**



**BATH COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**Fiscal Year Ended June 30, 2004**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Agriculture</u>		
 Passed-Through USDA Rural Development:		
Community Facilities Loans and Grants - Rural Development Loan (CFDA #10.766)	Not Available	\$ 400,000
 <u>U.S. Department of Commerce</u>		
 Passed-Through USDA Rural Development:		
Congressionally Identified Awards and Projects - Preston Sewer Project (CFDA #11.469)	Not Available	150,056
 <u>U.S. Department of Homeland Security</u>		
 Passed-Through Kentucky Department of Military Affairs:		
State Domestic Preparedness and Equipment Support Program (CFDA #97.004)	Not Available	22,075
 Disaster and Emergency Assistance Grants - 2001 Severe Storms Flooding (CFDA #97.036)	 FEMA-1388-DR	 263,641
2003 Winter Storm (CFDA #97.036)	FEMA-1454-DR	<u>74,953</u>
 Total Cash Expenditures of Federal Awards		 <u>\$ 910,725</u>

**BATH COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2004**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bath County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bath County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 17, 2005. Bath County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bath County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bath County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

Reference 2004-5

- The County Lacks Adequate Segregation Of Duties

Reference 2004-6

- The County Should Implement Required Purchasing Procedures

Reference 2004-7

- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

Reference 2004-5

- The County Lacks Adequate Segregation Of Duties

Compliance

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Reference 2004-1

- The 4<sup>th</sup> Quarter Financial Statement Should Be Prepared Correctly

Reference 2004-2

- The County Should Maintain Time Records For All Employees

Reference 2004-3

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Reference 2004-4

- The Fiscal Court Should Adopt A Written Investment Policy

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of Bath County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 17, 2005

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive  
Members of the Bath County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Bath County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Bath County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Bath County's management. Our responsibility is to express an opinion on Bath County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Bath County's compliance with those requirements.

In our opinion, Bath County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Bath County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Bath County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Bath County Fiscal Court, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 17, 2005



**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**BATH COUNTY FISCAL COURT**

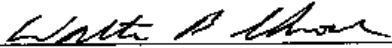
**For The Fiscal Year Ended  
June 30, 2004**



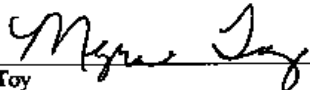
**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS**  
**BATH COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2004**

The Bath County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Walter B. Shrout  
Bath County Judge/Excutive



Myra Toy  
Bath County Treasurer